

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

September 19, 2005

The Investment Committee met on Monday, September 19, 2005 in the Lincoln Plaza North Building, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:05 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Ron Alvarado
Philip Angelides
Marjorie Berte
Robert F. Carlson
Rob Feckner
Priya Mathur
Michael Navarro
Tony Oliveira
Kurato Shimada
Steve Westly, represented by Joy Higa and Toni Symonds

John Hiber represented Philip Angelides

Investment Committee members excused: Mike Quevedo, Jr.

The Chair welcomed new Board member Tony Oliveira, local government representative replacing Willie Brown.

AGENDA ITEM 2 - APPROVAL OF AGENDA

Agenda Item 8a was taken up at a time certain of 11:30 a.m.

AGENDA ITEM 3 – APPROVAL OF THE AUGUST 2005 MEETING MINUTES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the August 15, 2005 Open Session minutes be approved as presented.

AGENDA ITEM 4 – INVESTMENT OFFICE ANNUAL PLAN

Mark Anson, Chief Investment Officer, presented the Annual Plan including asset class performance, key accomplishments, enterprise and strategic goals, long-term investment outlook, key objectives for 2005-2006, and next steps.

The Annual Plan was presented for the Investment Committee's information. Specific action items that require Investment Committee approval will be presented to the Board at a future date with specific costs identified. Each unit within the Investment Office will present a more detailed individual annual plan at upcoming meetings.

The Committee accepted the informational report.

AGENDA ITEM 5 – Caipers Total Fund Quarterly Report

Roz Hewsenian and Michael Schlachter, Wilshire Associates, presented the Executive Summary of the Investment Performance quarterly report for the period ended June 30, 2005. The performance of each asset class was reviewed and it was noted that overall performance for the one year period was very good – up 12.3%.

The Committee accepted the informational report.

AGENDA ITEM 6a – REAL ESTATE, Spring-Fed Special Projects Consultant Pool

Al Fernandez, Senior Portfolio Manager, and Diloshini Seneviratne, Investment Officer, presented the item.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve that the following consultants be added to the existing Real Estate Spring-Fed Special Projects Pool:

- Conrad and Associates, L.L.P.
- Le Plastrier Development Consulting
- JRT Realty Group, Inc.
- KPM Associates
- Situs Realty Services

AGENDA ITEM 7a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, AIM Spring-Fed Pool

Leon Shahinian, Senior Investment Officer, Sarah Corr, Portfolio Manager, presented the item.

In October 2005 Pension Consulting Alliance will present a Strategic Review of the AIM Program which will include an overview of the AIM Unit's use of consultants. Establishment of a new spring fed pool will reflect the Investment Committee's decisions regarding said review. Staff plans to begin a new RFP process in November 2005 and it is expected that a new pool of consultants will be selected and contracts will be in place by June 30, 2006.

The Committee accepted the informational report.

AGENDA ITEM 7b – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, Apollo Management Update

Leon Shahinian, Senior Investment Officer, presented the item.

Leon Black, Apollo Management, provided an overview of their program including their unique investment approach and portfolio management, historical overview, and fund summary.

The Committee accepted the informational report.

The meeting recessed from 10:35 a.m. to 10:55 a.m.

AGENDA ITEM 8b – GLOBAL EQUITY, Environmental Initiative on Utility Industry Transparency

Christy Wood, Senior Investment Officer, Bill McGrew, Portfolio Manager, Winston Hickox, Special Advisor-Environmental Initiatives, and Kelly Forrest, Investment Officer, presented the item.

Staff provided an update regarding Initiative 3 of the Corporate Governance Environmental Strategy, which is to identify improved reporting opportunities, develop a GHG reporting project, transition it to an external entity for implementation, and encourage support for it at our combined Utilities portfolio companies. Staff reported on the results of CalPERS and CalSTRS discussions to explore possible options.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to:

- Approve the Greenhouse Gas (GHG) Reporting Project in coordination with CalSTRS and the Carbon Disclosure Project (CDP) with the objective to improve transparency in the Electric Power/Utilities industry subject to successful negotiations of price and terms.
- Approve writing letters to CalPERS' Utilities portfolio companies to encourage cooperation with the GHG Reporting Project and consider other forms of disclosure in regard to GHG reporting.
- 3. Approve public recognition of companies that cooperate with the GHG Reporting Project.

The Chair directed that at the conclusion of this process (June 2006) the staff report include information that reflects those companies that did not respond in a positive way.

AGENDA ITEM 8c – GLOBAL EQUITY, Domestic Equity Manager Annual Review

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to renew the contracts for the following CalPERS' managers for a period of one year:

Active Managers

- AllianceBernstein
- The Boston Company
- Franklin Advisors
- Geewax, Terker & Company
- J.P. Morgan Investment Management
- Pzena Investment Management

Enhanced Index Managers

- Atlantic Asset Management
- Franklin Portfolio Associates
- Goldman Sachs Asset Management
- Intech
- Quantitative Management Associates
- Smith Breeden
- Western Asset Management Co.

The meeting recessed from 11:25 a.m. to 11:35 a.m.

AGENDA ITEM 8a – GLOBAL EQUITY, Update on Investments in Companies Doing Business in Sudan

The Chair commented on the situation in the Sudan involving the loss of life, displaced persons, ethnic tension and ongoing genocide, and described the leadership role the CalPERS Board and staff have taken on this issue.

Mark Anson, Chief Investment Officer, provided an update regarding staff's broad efforts over the course of the last ten months to engage relevant parties with regard to any investments in companies operating in the Sudan. He outlined the next steps staff will be taking to ensure that companies in which CalPERS has ownership positions are not engaged in any business activities that support genocide and human suffering in the Sudan.

There was a lengthy discussion regarding the seriousness of this issue, CalPERS' responsibility, and possible actions to be taken.

Public comments were received from the following:

- Congresswoman Barbara Lee
- Nikki Serapio, Stanford University Student

Tom Lussier, CalPERS Federal Liaison, commented (via telephone) about frustration encountered on an ongoing basis with federal agencies that have an appropriate responsibility to assist us in this situation and the need to redouble our efforts at the federal level.

The Chair directed that:

- This issue is of great import to the CalPERS Investment Committee, and Staff should continue to diligently and proactively pursue the action plan outlined in the agenda item.
- CalPERS has taken a leadership role among public pension funds on this issue as demonstrated by all of the work done to date and detailed in this agenda item. In fact, CalPERS has applied more resources to pursue and elevate this issue than any other investor in the world.
- The Committee authorizes staff to expend the resources necessary to implement the plan outlined in the agenda item, including the possible use of a consultant to assist in refining the list of pertinent companies for engagement and to support in the engagement process.
- In addition, the Board is cognizant that Staff have been given additional key priorities this year (Green Initiative, Executive Compensation, and Diversity), and the Board is willing to rework these priorities for Staff to allow Staff to pursue this issue.
- Staff should continue to work with CalPERS' federal legislative representative to
 press the appropriate federal entities to identify companies with business or financial
 ties in the Sudan, such that we may fulfill our fiduciary duty
- Staff should report back on a regular basis to the Investment Committee on its progress.

The meeting recessed from 12:20 p.m. to 1:30 p.m.

AGENDA ITEM 8d – GLOBAL EQUITY, International Equity Manager Annual Review

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to renew the contracts for the following CalPERS' managers for a period of one year:

Passive Developed Markets Equity Index Fund Manager

State Street Global Advisors

Active All-World ex-U.S. Equity Managers

- Arrowstreet Capital
- Baillie Gifford
- Grantham, Mayo, Van Otterloo
- Robeco USA

Active European Equity Managers

AXA Rosenberg

Capital Guardian

Active Pacific Basin Manager

Nomura Asset Management

Active Emerging Markets Equity Managers

- AllianceBernstein Institutional
- Dimensional Fund Advisors
- **Genesis Asset Managers**

AGENDA ITEM 8e – GLOBAL EQUITY, Spring-Fed Pools for International Equity Management and U.S. Equity Enhanced Indexing Management

Christy Wood, Senior Investment Officer, and Mary Cottrill, Senior Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to:

1. Approve the following spring-fed pool managers, subject to successful negotiation of fees and terms:

International Equity Enhanced Indexing Services

- AQR Capital Management
- Quantitative Management Associates

Active International Equity Management • Acadian Asset Management Services

U.S. Equity Enhanced Indexing Services

T. Rowe Price Associates

2. Approve the use of annual review contracts for the managers to be included in the spring-fed pools.

AGENDA ITEM 8f – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group, Council for Institutional Investors-September 2005 Meeting Update

Mark Anson, Chief Investment Officer, and Christy Wood, Senior Investment Officer, presented the item.

The meeting agenda and a written summary of expected speakers and topics were provided to the Committee.

AGENDA ITEM 9 – GLOBAL FIXED INCOME

There were no items to report.

AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Mark Anson, Chief Investment Officer, presented the item and noted that CalPERS had no direct exposure to Hurricane Katrina and the only anticipated effects on our portfolio will be at the macro-economic level.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of July 31, 2005, was approximately \$194.6 billion and the total book value was approximately \$149.1 billion.

AGENDA ITEM 11 – PROPOSED 2006 INVESTMENT COMMITTEE MEETING DATES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the Proposed 2006 Investment Committee Meeting Dates.

AGENDA ITEM 12 – DRAFT OCTOBER 2005 AGENDA

The Committee accepted the proposed October 17, 2005 agenda.

AGENDA ITEM 13 – PUBLIC COMMENT

There were no additional comments from the public.

The meeting was adjourned at 1:50 p.m.

The next meeting of the Committee is scheduled for October 17, 2005 in San Diego, California.

FRED BUENROSTRO
Chief Executive Officer